

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In Re:	§	Chapter 11
	§	
W.R. GRACE & CO., et al.,	§	Jointly Administered
	§	Case No. 01-01139 (JKF)
Debtors.	§	
	§	

**FEE AUDITOR'S FINAL REPORT REGARDING
FEE APPLICATION OF PRICEWATERHOUSECOOPERS LLP
FOR THE TWELFTH INTERIM PERIOD**

This is the final report of Warren H. Smith & Associates, P.C., acting in its capacity as fee auditor in the above-captioned bankruptcy proceedings, regarding the Fee Application of Pricewaterhouse Coopers LLP for the Twelfth Interim Period (the “Application”).

BACKGROUND

1. PricewaterhouseCoopers LLP (“PwC”) was retained as independent accountants and auditors for the Debtors and Debtors in Possession. In the Application, PwC seeks approval of fees totaling \$520,612.13 and costs totaling \$13,680.49 for its services from January 1, 2004, through March 31, 2004.

2. In conducting this audit and reaching the conclusions and recommendations contained herein, we reviewed in detail the Application in its entirety, including each of the time entries included in the exhibits to the Application, for compliance with 11 U.S.C. § 330, Local Rule 2016-2 of the Local Rules of the United States Bankruptcy Court for the District of Delaware, Amended Effective February 1, 2001, and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. 330, Issued January 30,

1996, (the "Guidelines"), as well as for consistency with precedent established in the United States Bankruptcy Court for the District of Delaware, the United States District Court for the District of Delaware, and the Third Circuit Court of Appeals. We served on PwC an initial report based on our review, and received a response from PwC, portions of which response are quoted herein.

DISCUSSION

3. In our initial report, we noted that on June 5, 2003, six firm members participated in a conference call. The total time spent including any preparation and/or nonworking travel time was 11.40 hours for a total fee of \$8,671.80. The entries are provided below.

06/05/03	LF	1.90	1412.00	Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.
06/05/03	PS	1.90	2050.10	Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.
06/05/03	DR	1.90	1081.00	Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.
06/05/03	JN	1.90	925.30	Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.
06/05/03	HM	1.90	1601.70	Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland

and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.

06/05/03 CP 1.90 1601.70 Conference call with five members of Grace financial and tax reporting management, five PwC representatives present and one of Grace's Kirkland and Ellis attorneys present regarding the final accounting for the Sealed Air Case settlement.

We asked PwC to explain why it was necessary for six firm members to participate in this conference call. PwC responded as follows:

The matter addressed above was financially significant to W.R. Grace and affected a number of financial reporting and tax areas; therefore, the audit engagement team was involved, along with a tax advisory team. Staff with various expertise was necessary to advise Grace on its decision and review the outcome, as it encompassed several complex financial areas.

We appreciate the response; however, it fails to address the issue except in the most general language. We note that in item #7 to follow here, PwC goes to some lengths to specifically address a similar staffing issue, and we note that such detail was not offered here. We therefore recommend a reduction of one-third, or \$2,890.60, in fees.

4. We also noted that on January 19, 2004, TH has a time entry listed for 8.40 hours for a total fee of \$4,780.00. The numbers total only 7.70 hours for a fee of \$4,381.30. The difference in fees is \$398.70.

01/19/04 TH 8.30 4723.00 Review of preliminary interoffice clearance memorandum 2.8; discussion of resolution of 2003 audit issues with team 2.8; update sign-offs in database 2.1

We asked PwC to confirm that this was an inadvertent miscalculation, or if not, to provide supporting detail for any activities left out of the description. PwC responded as follows:

We agree with your assessment that this time was inadvertently miscalculated in the filing. We agree to a reduction of fees in the amount of \$398.70.

We appreciate the voluntary reduction and thus recommend a reduction of \$398.70 in fees.

5. In our initial report we noted that during the month of January, 2004, ten firm members spent a total of 14.70 hours for a fee of \$4,737.00 on various ministerial and general administrative tasks which appear to be noncompensable. (See Exhibit "A") We asked PwC to explain why the time spent in these activities should be compensable. PwC responded as follows:

See responses to individual inquiries in Exhibit "A-Revised." We agree to a reduction of \$3,115.60.

We appreciate the response and concur with the voluntary reduction. We thus recommend a reduction of \$3,115.60 in fees.

6. We noted that on September 9, 2002, TH spent a total of 2.00 hours for a fee of \$1,044.00 traveling. The entry is provided below.

09/09/02 TH 2.00 1044.00 Travel time to an from deposition training.

Pursuant to the Local Rules any travel where no work is performed is to be charged at 50%. There is no indication that this time was billed at 50% of the normal rate. We asked PwC to explain the entry. PwC responded as follows:

As noted in our application and previous inquiries, our audit rates are billed at 45% of regularly hourly rates. Travel time during business hours is also billed at 45% of regular hourly rates.

We appreciate the response and we are cognizant of PwC's discounted hourly billing rates. However, we believe that logic dictates that the terms of PwC's retention and the application of the Local Rule regarding billing rates for non-working travel be viewed as separate issues. Regardless of the discount PwC has built into its agreement with the debtor, the firm is still subject to the Local

Rules of the United States Bankruptcy Court for the District of Delaware and the United States Trustee Guidelines. We thus recommend a reduction of 50% for this non-working travel entry, for a reduction of \$522.00 in fees.

7. Finally, we noted that on February 26, 2004, eight firm members participated in a meeting. The total time spent including any preparation time was 28.00 hours for a fee of \$14,181.00. The entries are provided below.

02/26/04	WB	4.50	3344.00	Attend the Sarbanes-Oxley planning/transition meeting. Meeting was held to introduce D. Guzzo's successor, discuss Sarbanes workplan, discuss current progress under plan, and discuss plan for going forward.
02/26/04	TH	4.50	2561.00	Attend the Sarbanes-Oxley planning/transition meeting. Meeting was held to introduce D. Guzzo's successor, discuss Sarbanes workplan, discuss current progress under plan, and discuss plan for going forward.
02/26/04	CC	1.50	812.00	Attend the Sarbanes-Oxley planning/transition meeting. Meeting was held to introduce D. Guzzo's successor, discuss Sarbanes workplan, discuss current progress under plan, and discuss plan for going forward.
02/26/04	WC	4.60	2240.00	Grace 404 engagement meeting with internal audit team (Grace-Guzzo, Heap, and Protivity), and Bob Tarola (Grace)
02/26/04	WC	0.50	244.00	Prepare for Grace 404 engagement meeting - finalize agenda and review
02/26/04	MD	2.00	832.00	Participate in conference call with Grace and PwC to discuss wrap up of 2003 audit, introduce new internal Audit director, and introduce new PwC team members.
02/26/04	JQ	1.50	524.00	Participate in Grace 404 conference call.

02/24/04	NG	0.40	137.00	Discuss agenda for Sarbox meeting on 2/26/2004 with Dan Guzzo (Grace)
02/26/04	NG	4.50	1539.00	Attend the Sarbanes-Oxley planning/transition meeting. Meeting was held to introduce D. Guzzo's successor, discuss Sarbanes workplan, discuss current progress under plan, and discuss plan for going forward.
02/26/04	HS	4.00	1948.00	Attend the Sarbanes-Oxley planning/transition meeting. Meeting was held to introduce D. Guzzo's successor, discuss Sarbanes workplan, discuss current progress under plan, and discuss plan for going forward.

We asked PwC to explain why this meeting required the participation of eight firm members. PwC's response is provided below.

Due to the nature of the meeting, the attendance discussed above was required. The meeting was a kick-off meeting for the start of a large and widespread Sarbanes-Oxley project. Participants from Grace included D. Guzzo (former Director of Internal Audit), B. Kenny (new Director of Internal Audit), R. Heaps (Internal Audit Manager), B. Summerson (Internal Audit Manager), Bob Tarola (CFO) and several representatives from Grace's service provider, Protiviti. Representatives from PwC included members of the Cambridge, MA based audit team, the Corporate audit team, the Davison audit team and the computer auditing team. Not all individuals participated in the entire meeting; rather, they were involved in areas which relate to their function. The meeting led to a number of large scoping and project decisions which required integrated discussion.

We appreciate the response and offer no objection to these fees.

CONCLUSION

8. Thus, we recommend approval of fees totaling \$513,685.23 (\$520,612.13 minus \$6,926.90) and costs totaling \$13,680.49 for PwC's services from January 1, 2004, through March 31, 2004.

Respectfully submitted,

WARREN H. SMITH & ASSOCIATES, P.C.

By:



Warren H. Smith

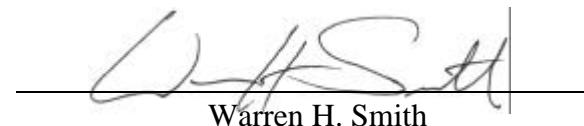
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FEE AUDITOR

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served First Class United States mail to the attached service list on this 29th day of July, 2004.



Warren H. Smith

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Exhibit A

01/16/04	CC	0.70	379.00	SPA staffing evaluation for 404 for Grace. Schedule staffing needs and evaluation of open requests.
01/28/04	CC	0.70	379.00	Follow-up on staffing needs to fulfill open slots. Talk with HR on possibilities.
01/16/04	ML	1.90	988.00	Review tax accrual - make copies of documents and set up binder
01/12/04	SD	0.50	244.00	Introducing new team members to various client contacts.
01/19/04	SD	0.50	244.00	Introduce team to Todd Hutcherson (PwC)
01/12/04	JQ	0.20	61.00	Getting introduced to team members.
01/12/04	JQ	0.50	154.00	Getting introduced to various client contacts
01/19/04	JQ	0.70	215.00	Introduce team to the visiting senior manager from Baltimore
01/27/04	CF	0.30	103.00	Clean up of files, including disposal of draft press releases.
01/06/04	AS	0.40	108.00	helping Nick (PwC) with the communication file
01/06/04	AS	0.40	108.00	looking for statutory audit report for france
01/06/04	AS	0.30	81.00	Setting up new Grace phone and messages
01/07/04	AS	0.20	54.00	accepting international deliverables
01/12/04	AS	0.20	54.00	helping Lauren (PwC) get access to VPN
01/14/04	AS	0.30	81.00	accepting international deliverables - trying to get Lauren (PwC) access.
01/16/04	AS	0.30	81.00	changing assignors in grace database to add Lauren (PwC)
01/26/04	JZ	1.40	378.00	Getting the external binders in order

01/23/04	BR	0.50	99.00	Organize and clean up the Conference room to ensure all important workpapers are taken with us.
01/07/04	NS	0.20	39.00	Prepare and stuff envelopes for cash confirmations to be sent
01/12/04	NS	1.00	197.00	Arranging and traveling to pick up lunch for Grace team.
01/15/04	NS	1.00	197.00	Coordinate and pick up dinner for Grace team.
01/16/04	NS	0.50	99.00	Reserve conference room for Grace team
01/14/04	LM	0.60	118.00	Created binder for storage of legal letter confirmations for the external working papers retained
01/20/04	LM	0.60	118.00	Created legal confirmation binder
01/22/04	LM	0.40	79.00	Filed received legal letter confirmations
01/26/04	LM	0.40	79.00	Updated legal confirm binder with newly received confirmations